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AGT

ANNUAL REPORT 1985



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HIGHLIGHTS



	<u>1985</u>	1984
Plant Investment	\$3 015 739	\$ 3 139 373
Capital Expenditures	\$ 180 688	\$ 215 922
Subscriber Lines in Service	772	746
Long Distance Messages	236 207	214 357
Total Revenues	\$1 048 931	\$ 970 385
Net Income	\$ 48 216	\$ 11 115

(thousands)

AGT COMMISSION

AGT



H.B. Hobbs
Chairman



H.M. Neldner
President



D.F. Baillie
Senior Vice President
Network Engineering & Operations



R.A. Bickell
President and
Chief Operating Officer
Canadian Forest Products Ltd



J.W. Burrows
President
Travacon Ltd



A.F. Collins
Advisor — Provincial Treasurer



W.A. Graham
Chairman
Western Supplies Ltd



C.M. Leitch, Q.C.
Managing Partner
McLeod Dixon



V.A. MacNichol
Deputy Minister
Utilities and
Telecommunications



J.R. McDonald
Vice-President
Operations
(Retired December 13, 1985)



D.G. Skagen
Chairman
Mohawk Oil Co. Ltd



J. Szamkiewicz
President
Alta Telecom
International Ltd



F.S. Weatherup
Chairman
Saville Land
Developments Ltd



TECHNOLOGY, RESEARCH
AND TELECOMMUNICATIONS



Office of the Minister

319 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 403/422-5982

Her Honour
The Honourable Helen Hunley
Lieutenant Governor of Alberta

Your Honour:

I have the honour to submit the Annual Report of Alberta Government
Telephones for the year 1985.

Respectfully submitted,

Minister
Technology, Research and Telecommunications

Honourable David King
Minister of Technology,
Research and Telecommunications



CHAIRMAN'S REPORT

One of the laws of nature could well be a law of business too — you must grow, change and adapt, or risk falling by the wayside. It seems only a short time ago that AGT, faced with rising costs, deficits, mounting external pressures and an explosion of new technology, had to face these challenges squarely: adapt, change, grow or eventually face extinction.

As you will read in the pages following, the Company has made many changes to meet the challenges that face it, and the AGT Commission is pleased to report that the Company has never had stronger foundations on which to build for the future.

It is the responsibility of the AGT Commission to initiate policies, encourage and monitor change and growth, so that the Company is always better able to carry out its mandate: to provide and maintain a modern, universal telecommunications network in Alberta at affordable cost to customers; to interconnect the Alberta network with other networks in order to enhance the services offered to customers; and to assist in the economic diversification of the province by encouraging development and growth of the telecommunications industry and developing new technologies to meet the future needs of all Albertans. Commission members have kept this mandate paramount in all of their deliberations.

The financial turnaround of AGT will be noted and detailed elsewhere in this report — a most gratifying change brought about by the dedication, hard work and ingenuity of all AGT employees. It should be noted that the competitive divisions of the Company have played an important role in AGT financial results, contributing some 30% of total corporate revenues. The subsidiaries and joint venture have also helped to carry out an important part of our mandate and will continue to do so.

On February 1, 1985, the Commission approved a directional plan which charted AGT's future for the next five years. The plan identified the pressing need to restructure AGT to improve responsiveness to customers, strengthen corporate management and create an organization of market-driven profit and cost centres. The reorganization



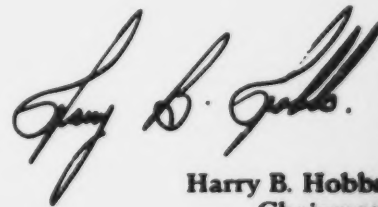
has been under way over the past year and is being implemented in phases so that the key elements will be in place by mid-year, 1986.

Certainly our challenges are not over. Some of the key issues we must continue to face are: long distance competition; federal/provincial jurisdictional arguments; the AGT/edmonton telephones' relationship; the challenge of making AGT, through technology and skills, a continuing leader in world telecommunications.

An important step was taken to face these challenges with the appointments of Mr. Don Baillie as Senior Vice-President and of Mr. Jim McDonald, Mr. Frank Parrotta and Mr. John Thiessen as Vice-Presidents of the Company.

Mr. Jim R. McDonald, a highly valued Commission member, retired from his Commission post and from AGT at the end of the year. Our warm thanks go to Jim for his zealous service since he joined AGT in 1948, and for his committed support in the building of its foundations for the future.

We know we must always — as nature demands — continue to grow, change and adapt. We are confident we have the proper foundations with which to face the future. And we commend all of our AGT employees who have helped to make this so.



Harry B. Hobbs
Chairman

PRESIDENT'S REPORT

The strong financial performance, greater operating efficiencies and improved customer services not only marked the progress achieved during 1985, but also laid some sound foundations on which we can build to move with confidence towards the 1990s.

Foremost among the many achievements was the continued strengthening of our financial results. Although Basic Service rates were reduced by 4.85% in August, 1985, in December AGT became a "Billion-Dollar Corporation" as total operating revenues grew by 8.1% over 1984 to \$1.049 billion. With growth in operating expenses restricted to 2.6%, net operating revenues increased by 23.8% from \$250.3 million in 1984 to \$310.0 million for 1985. Return on capital improved from 12.84% to 13.78%. While business volumes showed steady growth during the year, work hours were reduced by a further 3.1% from 1984.

For the fourth consecutive year we did more with fewer resources as the work force decreased by 322 through normal attrition and retirement. The progress achieved in 1985 is to the credit of our people throughout the organization. Their team spirit and dedication have made possible the attainment of our short-term goals. Their talents and determination are the cornerstones of the foundations for the future.

I wish to acknowledge, in particular, the significant contributions made by Mr. Joe Szaszkiwicz, Executive Vice-President, and Mr. Jim R. McDonald, Vice-President, Operations, who retired in December 1985 after 33 and 37 years of service respectively. Their strong support and well-balanced counsel were of great value in managing the affairs of the Company during difficult times.

Over the past year, our management team directed much of its energies towards the development of organization structures, information systems and management processes to support the strategic initiatives that will be undertaken in the months ahead.

Our new organization structure positions AGT strategically for a rapidly changing business environment, characterized by expanding competition, innovative technology and decreasing regulation.



Above all, it further emphasizes the primary importance of our customers. Individual business units dedicated to the marketing of our residential, business and network services have been established.

Implementation of the new organization began late in 1985 with the appointments of Mr. Don Baillie as Senior Vice-President, Network Engineering & Operations; Mr. Jim McDonald as Vice-President, Corporate Development & Regulatory Affairs; Mr. Frank Parrotta as Vice-President, Finance and Mr. John Thiessen as Vice-President, Human Resources & Corporate Services. These appointments strengthen our senior management team, and I look forward to working closely with these capable executives in providing effective leadership to our organization.

Although weakening oil prices have created new uncertainties with respect to the short-term health of Alberta's economy, our performance in 1985 strengthens our conviction that we are well positioned to meet unexpected difficulties and can capitalize on the many opportunities for growth that the future holds for the telecommunications industry.

Hal M. Neldner
President

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FOUNDATIONS FOR ENHANCED CUSTOMER SERVICE

AGT

At AGT, 1985 was a "turnaround year" in more ways than one. As well as showing a healthy net income for the first time since 1980, AGT emerged as a leaner, more finely-tuned organization.

The Company now has 11,500 people compared to 13,400 at the start of 1982. No layoffs were involved; AGT simply found more ways to eliminate redundant effort and encourage everyone to feel more involved in a motivated, productivity-directed team.

In 1985, it also proceeded along a planned evolutionary path to offer its many services more effectively and less expensively.

And it came to grips with the future with greater determination than at any time in its 80-year history.

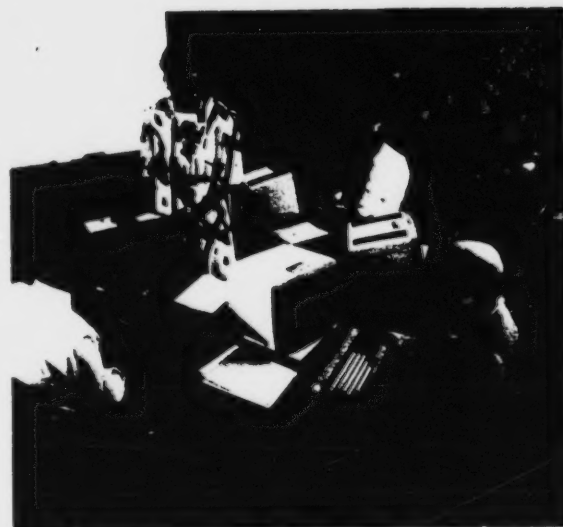
Directional Plan

In the previous year, AGT had subjected itself to a deep and often traumatic self-examination. The result: the AGT Corporate Directional Plan. The plan points the way from the Company's existing reality to its desired future.

In building its foundations for the future, AGT undertook an introspective process of "gap analysis". It determined what must be done to transform AGT from a fine utility-based company today to a keenly competitive company tomorrow.

On the basis of the Directional Plan, a thorough organizational restructuring got under way in 1985. It is a program of rational adaptation to — and also management of — change. Change in the markets. Change in technology. And change within AGT.

By the end of the year, important moves had been made to strengthen AGT's management team. More will follow quickly. The massive job of restructuring AGT as a more market-



Instructor Cindy Fairbridge introduces a group of managers to the Professional Office System that revolutionized office work at AGT.

sensitive organization, even more responsive to what customers want, need and demand, is scheduled for completion in mid-1986.

Customer service enhancement

The Directional Plan is designed to challenge every division and department of AGT, and to stress the fact that success comes quickly when everyone pulls in the same direction. Being responsive to customers' needs is vital to AGT's existence, as is meeting those needs profitably in the long term.

In that spirit, the Directional Plan led to ongoing Customer Service Enhancement Courses — attended in 1985 by 3,000-plus staff members. Naturally, they included managers, customer service representatives and operators. But they also included cable splicers, equipment installers, linemen, repair service



Instructor Don Lindsey imparts Customer Service Enhancement ideas to Kelly Nyles, Jim Engman, Norm Guenther, Freida Devlin.

Deep in a manhole, Cable-splicer Les Robinson deftly completes a connection.



staff, clerks and others. In short, anyone at AGT who is likely to have any interface, of any kind, with any customer.

Integrated electronic office

At the same time, AGT stayed on its course of improving employee productivity and reducing costs.

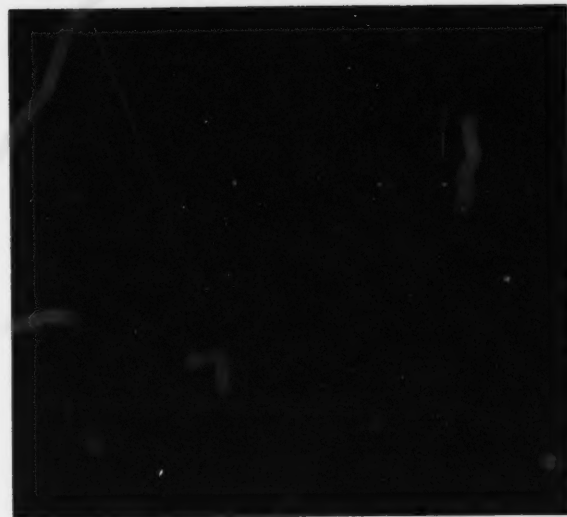
1985 saw extensive expansion of the Professional Office System (PROFS). Users of the automated system grew from 800 to 1,500. Integrated video-screen terminals have put office information at the fingertips of every user from the Chairman to the newest stenographer on staff.

Paperwork has plummeted. Memos and letters — inter-office or office-to-office — are now processed, transmitted and received electronically in minutes. Records are updated and distributed at the touch of a few keys of a workstation console. Scores of space-consuming filing cabinets have given way to electronic files that can be accessed in seconds.

Productivity improvement

The Productivity Improvement Program, which predated the Directional Plan, also maintained its momentum in 1985. Thirty-five percent of the Company now participates and the value of productivity improvements in 1985 is estimated at \$4 million. The Productivity Improvement Department has proved the program works. With the ongoing cooperation and support of AGT employees, it will continue to play its strategic role, raising productivity while reducing costs.

As one example of the ways in which the cost reductions were achieved, AGT Operations successfully implemented a new inventory control system. Customer service was maintained with a \$1.6 million inventory reduction at the material distribution centres.



Technician Rene Cyril terminates a mass of cable wires on a switching equipment bay.

Operations also expanded its program of circuit board repair. An additional automated test machine was installed in Calgary. Improved circuit board procedures and the use of new equipment avoided expenses of \$2.5 million in 1985.

Other Operations initiatives included the installation of a micro-computer and the development of software for inventory control of repair parts.

Rate reduction

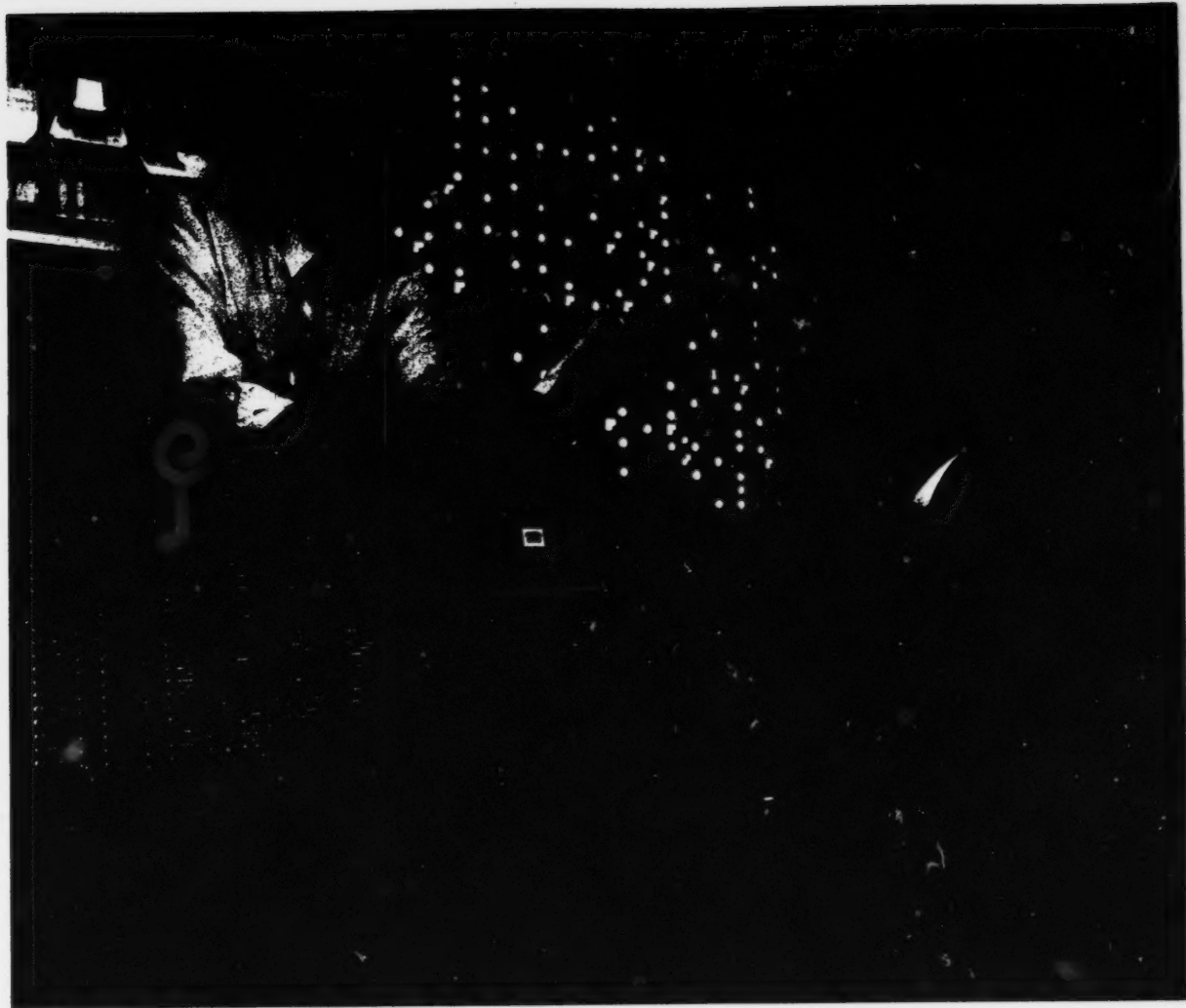
A major 1985 event was a rate reduction for customers. This reduction for most basic services took effect August 28. It resulted from the removal of the revenue deficiency rider granted by the Public Utilities Board. The rider enabled AGT to recover the shortfall between approved revenue requirements and revenues collected for 1983 and 1984.



Innovative circuit board repairs saved AGT \$2.5 million in 1985. Technician Cindy Walters shows how it's done.

Lawyers Don Carroll and Nestor Makuch address the Supreme Court of Canada in the first use of AGT Video Conferencing for an appeal during the Court's usual course of business.





Technicians Al Hibbard and Don Salmon keep a close watch on long distance networks at the AGT Provincial Service Coordination Centre in Calgary.

Technician Bernd Stephan at the console in AGT's TV Operating Centre, which relays programs from across the country and around the world.

Customers now pay 4.85% less for business and residential phone rentals and long distance calls in Alberta and to other provinces.

The way the news of the reduction reached the public was an excellent demonstration of the PROFS computer system at work. Reporters in Lethbridge, Medicine Hat, Red Deer and Grande Prairie got the news release at almost the same time as those in Edmonton and Calgary.

Improved service

Along with the rate reduction came improved service to customers as Operations Network Methods forged ahead with its Fundamental Operations Plan. The Provincial Service Coordination Centre in Calgary is now staffed around the clock by management personnel. Result: sharpened reaction time in troubleshooting and in keeping the network performing at optimal capacity.

Enhanced network reliability also came from the opening of the new Edmonton Broadband Operations Centre, similar to the one established in Calgary the previous year. Meanwhile, the MOSS (Mechanization of Switch Surveillance) program was expanded. The program uses the sophisticated remote monitoring system created by AGT Operations. About a hundred switches are now under constant MOSS surveillance.

Measures like these all add up to tighter network control, faster network diagnostics, and added customer satisfaction now and for the future.

The Airways exchange opening in Calgary brought a new generation of digital switching (DMS-100) on stream. With its nearly 12,000 lines, Airways freed crowded subscriber lines at the nearby Crescent Heights and Temple exchanges. For future needs, the switch and building are engineered for 30,000 lines. A new



Trunk Test Centre Technician Joe Hillaby (seated) and Foreman George Glover check trunk performances.

digital switch also went into service in Elk Point, near St. Paul, and a digital remote switch in Kitscoty, near Lloydminster.

1985 planning for AGT's networks of the future included digital switches for 1986-87 in Brooks, Bassano, Langdon, Sherwood Park and Fort McMurray. Also high-capacity fibre optic routes from Lethbridge to Fort McLeod (1986), Calgary to Canmore and Banff to Lake Louise (1987). Work progressed for 1986 completion of digital radio between Edmonton and Fort McMurray to open up new business services for the energy industry.

Planning and design went ahead on AGT's involvement in important new Telecom Canada projects. They are the northern inter-provincial digital radio route (Edmonton-B.C. border section) for 1988, plus Telecom Canada's fibre optic route (Lloydminster-Jasper section). This should be complete as far as Chipman in early 1988, and fully complete by 1992.

Work continued on the development of Pole Line Digital Radio. A technology trial near Edmonton of the network idea showed promising results. Between communities, PLDR can be a backup long distance link that supplements cable circuits. It can provide network diversity so that, should the cable link fail, service continuity is maintained by the radio link. And vice versa. It can be used to restore a damaged or interrupted network. It can also serve as a network extension when Alberta's winter prevents cable installation.

Long distance use

An indicator of increasing economic health was the greater use Albertans made of long distance service in 1985. AGT long distance revenues rose by over 11%. They continued to support unprofitable local service and helped AGT provide affordable telephone service to virtually all Albertans.



"ONI" ends in Edmonton

A key long distance event was the reinstatement on February 26 of Automatic Number Identification for long distance calls from Edmonton, after 'edmonton telephones' stopped scrambling computer data needed by AGT to complete billings. This enabled AGT to discontinue the practice of ONI (Operator Number Identification).

The Government of Alberta and the City of Edmonton signed a Memorandum of Understanding on April 24 to resolve outstanding issues between AGT and 'et'.

Ready for competition

The possibility of future long distance competition loomed large in the Company's thinking in 1985. AGT is prepared to compete on a fair basis, with all "players" subject to the same rules. Competition would be far from fair if, for example, new entrants were allowed to profit from high-use toll routes but were exempted from responsibility for service on light-use routes.

The all-important question is that of local service. Local rates are kept low by subsidization from long distance revenues. Competition would make it necessary to seek alternative ways to avoid the long distance revenue loss, such as abandonment of universality of service, substantial rate increases, and/or special additional funding mechanisms.

AGT maintains that before any introduction of long distance competition is permitted, there should be proof that it provides economic benefit to all telephone users. In that regard, the CRTC decision (August 29) rejecting CNCP's application to compete with Bell Canada and B.C.Tel, is significant to all Canadian telephone companies.



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High-speed network performance is now monitored at two Broadband Operations Centres. Shown on duty in Calgary are (l. to r.) Herb Gabreau, John Fleck, Reg Smith.

A call home from "battle". AGT-installed wilderness phones for Canadian, U.S. and British forces personnel in the 1985 exercises near Wainwright. Edmonton Journal photo.



AGT buried-cable crews and their "plowcats" lay a Mount Allan communications foundation for the 1988 Olympic Winter Games.

This Peace River "buried" cable was four feet underground till a landslide hit. AGT crews worked through the night to restore service early next morning.



But in a Federal Court of Appeal judgment, the CRTC was said to have the jurisdiction to hear an application by CNCP to the CRTC for interconnection with the AGT network for private line service. This court reversed a previous court decision that the CRTC did not have jurisdiction over AGT, a Crown Corporation regulated by the Public Utilities Board of Alberta. AGT has applied to the Supreme Court of Canada for leave to appeal the new decision.

Labor contracts

Settlements were obtained for all three Collective Agreements.

After mediation, two-year Clerical and Traffic contracts were settled: both December 25, 1983 to January 4, 1986.

In its 80-year history, AGT has never had a strike by a significant number of employees. The record was maintained in 1985 when a Craft strike was averted through the successful negotiation of a two-year contract: January 6, 1985 to January 3, 1987.

Olympic Winter Games

While AGT addressed concerns like these, it continued to plan and work for Alberta's telecommunications future, immediate and longer-term.

Of special interest to Albertans and all Canadians are the fast-approaching 1988 Olympic Winter Games. A full-time Olympic Project Committee was established to ensure that the Company's varied services and skills will be employed to maximum advantage for OCO'88 and other telecommunications users and suppliers. Negotiations progressed on a working agreement with OCO'88, expected to be signed early in 1986.



An AGT bucket truck became a fire fighting tower to help control the blaze on the roof of the High Prairie Provincial Building. Deborah McCarron photo. Seens Photography.

Already, AGT's Olympic Project Committee has served winter sports well, with telecommunications assistance for four separate 1985 events: the Ladies' Canadian Championship and the Husky World Downhill, both at Sunshine Village, plus the Alberta Winter Sports Festival in Calgary and the Molson World Downhill at Panorama Ski Resort, B.C.

The community spirit of AGT people was demonstrated by the volunteered services of several Mobile Communications employees at these events. In the case of the Molson World Downhill they worked as a team with B.C.Tel employees. A warm letter commending their work came from Panorama Lodge Operations Manager Ross Laflamme.

A network concept for forecasted Olympic needs has been designed and market tested. The overall forecast is that the work of AGT's Olympic Project Committee will benefit telecommunications service for Albertans both during the Olympics and on into the future.

AGT as a corporate citizen

AGT is conscious of its responsibilities as an Alberta corporate citizen and contributions are made to worthy causes in health, education and the social sphere.

An AGT *Junior Achievement* company was formed in Calgary, in addition to those which are operated in Edmonton. As well as receiving AGT sponsorship, these young entrepreneurs are assisted by AGT volunteer advisors in both cities.

Also in the student area, AGT was official sponsor of the *Elementary Computing Science Award* section of the Edmonton Regional Science Fair '85.

The Company cooperated with the Alberta Teachers' Association and ACCESS Television to provide a "Homework Hotline" for junior high school students — not to do their homework for them, but to help them over "rough spots".

A weather forecast was added to the long-established and highly-used *Time and Temperature* lines throughout Alberta.

On an individual level, the courageous one-legged marathoner *Steve Fonyo* was assisted in his historic fund-raising run for cancer research. When Steve reached Alberta he received an AURORA mobile phone from AGT and NovAtel Communications Ltd. He quickly made good use of it — a long distance call to his mother. His father, Steve Fonyo Sr., later said the unit saved his son about 2½ hours each evening in time spent on media interviews.

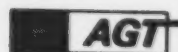
AGT has helped promote rural community activities for many years by sponsoring the informational "Good News Party Line" column in weekly newspapers.

In addition to corporate activities like these, AGT people are known for their individual and group activities in their own communities throughout Alberta.



Journey for Lives Marathoner Steve Fonyo making good use of his AURORA cellular mobile phone donated by AGT and NovAtel. Calgary Herald photo by Phillip Jang.

FOUNDATIONS FOR MARKET DEVELOPMENT



As an end-to-end service provider, AGT delivers all elements of the telecommunications spectrum: basic telephone service, advanced business systems, terminals, software and computer systems. Solid marketing efforts enable AGT to offer products and services that meet customers' telecommunications needs with competitive features and prices, while contributing to the Company's net revenue.

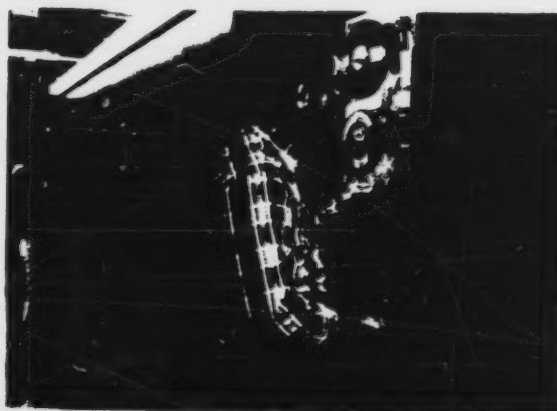
Network Services

In 1985, AGT Network Services brought customers two new ways to access the information marketplace.

One is **TINA** (Tele-Information Network of Alberta). It offers Albertans a cost-effective link between business and home computers and data bases, via the telephone network. Thanks to a unique party-line emergency access device, rural customers can now access a wealth of information, ranging from grain or beef reports to agricultural economics, continuing education courses and stock market data. TINA also offers *suppliers* of computerized information services an expanded Alberta market.

Another is **iNet 2000**, Telecom Canada's national information management network. More than a thousand data bases can be reached by any Canadian with a computer terminal, a modem and iNet. A few examples of its uses: lawyers can get current decisions, firemen can access the best methods to handle chemical fires, auto services can search Canada for unique parts. More, iNet lets users send electronic messages, file and edit data and even hold data conferences.

In other developments, the **ENVOY POST** service continued to grow both in users and in coverage. It expanded to include every postal code in Canada.



Checking DMS-100 electronic switch circuit boards just before the start of the new CENTRON service are (l. to r.) Installers Ken Collier and Don Levy and Installation Foreman Jim Olmstead.

The **DATAPAC** switched-packet data network also grew. Agreements signed with two more United States carriers brought the total to four. New Zealand became the 38th country to join the international "DATAPAC family". And six new features further enhanced DATAPAC's overall performance.

In Calgary, **CENTRON** came on stream. This city-wide integrated business network will expand to other centres. Users enjoy the features of an advanced PABX system except that all the switching equipment is located at AGT, not on the customers' premises. Today's CENTRON is a foundation for the future; it will keep evolving.

Business Communications

Services like CENTRON are marketed through the Business Communications division, which has adopted "Challenge and Change" as its motivational theme.

The major CENTRON customer is the federal government, with 2,000 telephone locals in offices throughout Calgary. Wrote D.H. Lovejoy, District Manager, Government of Canada Telecommunications Agency: "My sincere thanks for the excellent support and assistance both during and after the cutover to CENTRON service."

National bank branches also became CENTRON customers. The service in Calgary was provided by the AGT National and Major Accounts Group. This group works in unison with other Canadian telephone companies, publicly- and privately-owned, who are fellow members of Telecom Canada.

CENTRON provides a national network-based service across Canada. The near future will see the increased efficiency — and reduced cost — of integrated voice and data on a single line.

The division's major 1985 event was a "first" in Canada: the new SL-100 digital switch at The University of Calgary. This ultra-modern digital system was turned up at 4,000 lines. Growth to 5,500 is projected by 1987.

Medium and small businesses responded to AGT's compact, fully-featured and cost-effective offerings in the electronic key system market. Substantial sales were made to businesses which required up to six central office lines and sixteen key telephones. Ongoing potential in the electronic key system market is excellent, especially with the availability of still more compact versions for customers who require smaller installations.

AGT also provided answers for customers seeking enhanced service and longer life for their present systems. One example is Generic 1000 for the SX-200 PABX. Along with additional features, it allows migration to digital technology. Also, SL-1 digital PABX users can now have integrated voice messaging.

A new Business SalesCentre brought Grande Prairie the same "total communications retail store" convenience enjoyed by customers in Calgary, Lethbridge and Red Deer.

In meeting the challenge of marketing, new steps were taken to enhance customer service. They included multiple maintenance options, major account service plans, and a reward program for craft people who initiate successful sales leads.

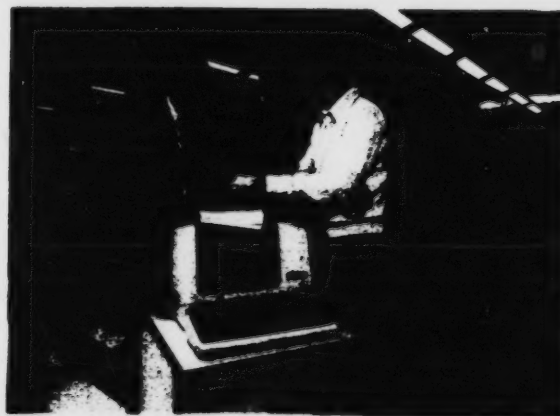
An improved inventory control system was implemented by Business Communications. It showed positive results plus increased inventory management capabilities for the future.



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Telephone Service Representative Brenda Samborn (foreground) demonstrates a medium- to small-business electronic key system at the new Grande Prairie Business SalesCentre.

PABX Systems Designer Wes Willett discusses the new University of Calgary SL-1 electronic switch, first in Canada, with Technician Lionel Bertrand.



Altel Data

Altel Data sells the value of *product* synergism in well-engineered computer and data communications systems. In its 1985 marketing, it stressed the value of *people* synergism to create new sales and to satisfy its customers.

Marketing and engineering staff wrestled tough data-market conditions to achieve higher revenue. Example: the design of a \$6-million integrated data communications network for the Treasury Branches of Alberta. Network business also included two megaplan circuit orders totalling over \$1.5 million per year for Shell Canada Limited and Petro-Canada Inc.

Other major sales included large-scale disk storage equipment plus maintenance contracts for customers' existing systems.

This is a growing component of Altel Data's business. How many Albertans know, for instance, that Lotto 6/49 and Lotto West terminals across the province are repaired and maintained by the Altel Data division of AGT?

Altel Data offers total system solutions. TINA, iNet 2000, ENVOY 100, ENVOY POST and DATAPAC are only a few of its network offerings. Other products include business and personal computers, software, terminals, modems and multiplexers.

A major 1985 breakthrough was for the agricultural market — the ADVANTAGE line of software, synergistically matched with IBM and Sperry personal computers. Initial response has been encouraging as drought, grasshoppers and weak markets make good farm management increasingly vital.

A key decision resulting from the Corporate Directional Plan was to integrate Altel Data and Business Communications in 1986 — just as voice and data technology are to an ever-



Altel Data Technicians Gary Williams and Steve St. John adjust a Lotto 6/49 terminal.

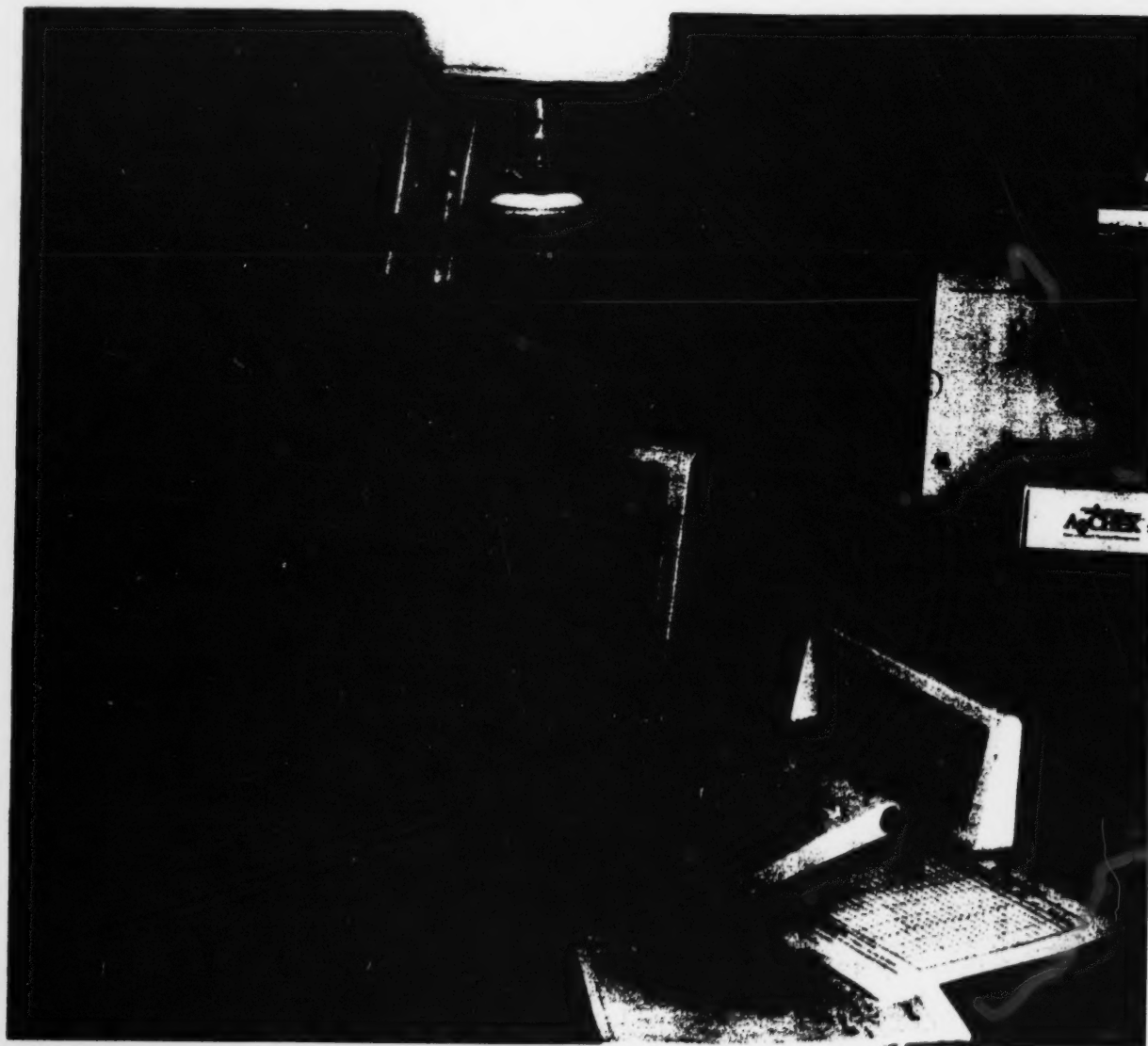
growing extent becoming one.

Meanwhile, Altel Data addressed the future with new multiplexer and modem equipment, selected to provide much higher data transmission speeds on standard voice-grade or data lines.

Mobile Communications

The Mobile Communications division again demonstrated its initiative and creativity.

AURORA, North America's first full-roaming cellular mobile telephone system, expanded to provide virtually province-wide coverage. Mobile Communications and NovAtel Communications Ltd. won the prestigious 1985 Achievement Award of the Association of Professional Engineers, Geologists and Geophysicists of Alberta for "the ingenious combination of unique concepts used in the AURORA system."



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Altel Data's agricultural software is based on practical farm needs. Farmers can have the software alone or a complete computer system.

First seen at the 1985 Canadian Business Telecommunications Alliance Conference in Edmonton, this combined display emphasizes total communications from AGT's marketing divisions. It also identifies AGT as a Telecom Canada member.

Subscribers to the new service more than doubled to 3,600 in 1985.

In addition, "Mobile" achieved a 10% growth to over 26,500 subscribers on its long-established General Mobile service.

After extensive testing, the division launched its new 800 MHz trunked system with encouraging market response. The state-of-the-art system (TM-2000) is primarily for dispatch operators. Its coverage extends well beyond the city limits of both Edmonton and Calgary.

Another software-controllable device designed by the division and marketed in 1985 was TACT (Telephone Access Control Terminal). The low-cost unit lets Private Mobile Radio users access the telephone network. As just one example, a person in trouble can easily access a municipality's PERILS emergency system — another invention of "Mobile".

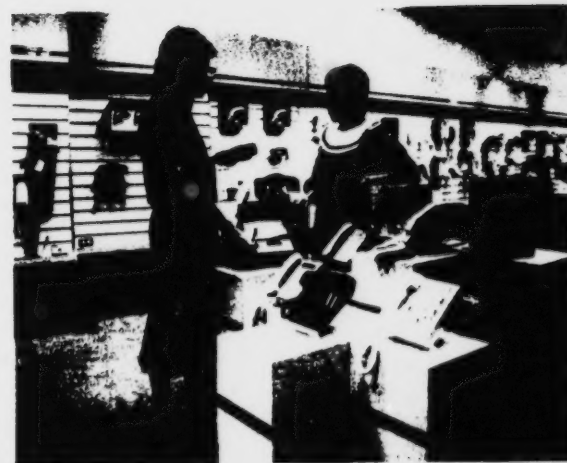
In the face of increasing competitive pressure, "Mobile" revenue rose by 20%. Future industrial and professional needs will be met with continued superior service and equipment at affordable rates.

Residential Marketing

In the highly-competitive residential and small business market, AGT gained a 35% net revenue growth — assisted by excellent retail merchandising at the sixteen phoneCentres, the seven mini-phoneCentres and the five community franchise outlets.

Red Deer's second phoneCentre opened at Bower Place Mall in September, and December brought new franchise outlets to Bonnyville, Drumheller and Airdrie.

As part of their merchandising flair, AGT's phoneCentres make themselves highly visible in community retail activities and local home and trade shows. The Market Mall phoneCentre won the 1985 Calgary Stampede Retail Award. Lethbridge phoneCentre won a Home



Retail Sales Clerks Maureen Joly and Carolynn Bergh review the products and services offered in a new phoneCentre, Red Deer's second.

and Garden Show Exceptional Display Award.

The year saw a 38% growth in phone sales plus a greater trend to feature phones like speakerphones, memory phones and phones for conference calls. Also two-line phones which were introduced in 1985. Answer-Record phone sales doubled with the introduction of low-priced residential models. A new accessory was a wiring package with clear instructions for safe, low-cost home installation.

AGT Page-Call pocket pager growth averaged 75 new customers a month — a 14% increase over 1984.

Residential toll revenue averaged an 8% increase and special promotions raised substantially the number of Residential Calling Card users.



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Canadian Paraplegic Association Rehabilitation Service Director Larry Pempeit tries out one of more than 100 mobile radios donated by Mobile Communications. With him are General Mobile Manager Ed Tucker, West Edmonton Rotary Club Representative Allen MacLean and van-owner Mike Doris. Edmonton Journal photo.

A phone in the field. AURORA cellular mobile phone service expanded throughout Alberta in 1985.



Yellow Pages

Directory-billed revenue increased by almost 11%. Encouraged by a special promotion, plus effective sales aids and brochures based on the department's advertising effectiveness surveys and market studies, more advertisers bought display advertisements.

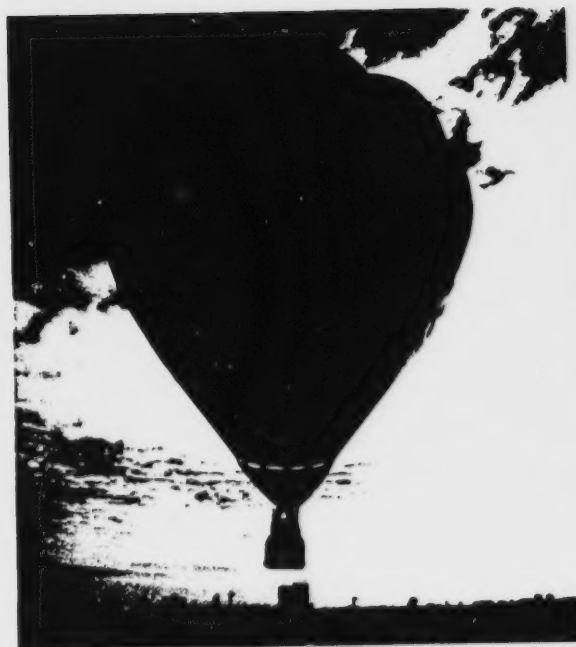
A system of "keyed advertisements" was developed. It helps to track the results generated by Yellow Pages advertising.

For improved service with fewer people, the department installed the national CANYPs (Canadian Yellow Pages) Mechanized Selling System. In addition, a new Display Advertisement Management Production System resulted in faster text entry, proofing and production.

Directory publication dates and advertising deadlines were revised, giving advertisers more time to prepare their messages. Also, Directory salespeople received training to help clients develop advertisements with extra "reply appeal".

The universal Yellow Pages "walking fingers" are now more visible than ever. They stride across Alberta skies on the eye-catching AGT Yellow Pages balloon. After its June 7 inaugural flight in Red Deer, it took part in the Calgary Stampede Great Hot Air Balloon Race, the Canadian Hot Air Balloon Championships in Okotoks, and numerous other events around Alberta.

Directory rates will remain at their 1985 level in 1986. But new features will point the way to the customer service of the future. Clients will be able to focus on their markets with half-page ads in 1986. There will also be a special Restaurant Guide in the Calgary directory. Ideas like these, together with ongoing market research, help to lay a foundation for future Yellow Pages. They will be a more viable buying guide and marketing tool than ever for Alberta consumers and businesses alike.



Yellow Pages' "walking fingers" stride over Alberta on the Directory Department's big yellow balloon.

ALBERTA FOUNDATIONS FOR WORLD COMMUNICATIONS TECHNOLOGY

AGT

AGT's subsidiaries and a joint venture company were organized four years ago as foundations for a more diversified economic base in Alberta. In addition, they are helping to make Alberta technology attractive to out-of-province markets, both in North America and around the world.

Alta Telecom International Ltd. (ATI)

Formerly Alberta Telecommunications International Ltd., this subsidiary, founded in 1982, markets AGT expertise worldwide. Utilizing marketing management and operations personnel on loan from AGT, it established its presence in the United States, Caribbean and Pacific Rim markets.

ATI was reorganized in 1985 as Alta Telecom International Ltd. — a permanent profit-oriented and self-supporting entity committed to the challenge of international marketing and operations. The new organization includes a headquarters staff of 51 headed by a President, two Vice-Presidents and a Comptroller in Alberta, as well as an Executive Vice-President in Thailand. There are 100 employees assigned to contract work.

With new opportunities unfolding for ATI in Thailand, the Singapore office moved to Bangkok. There, in consortium with TPEC (Thai Professional Engineering Consultants Co. Ltd.) and CANAC Telecom, a 12-month contract was won to train traffic engineers for the Telephone Organization of Thailand. Five of the engineers are now training with AGT in Alberta. When they return to Thailand, they will be assisted by two ATI staff members in training 20 more.



Visiting engineers from Thailand receive training from AGT. In the foreground, Thawatchai Vongluangnam, Niti Ukris and Nimit Wattanuchariya receive instruction from Training Coordination Manager Lyle Young. Central Officeman Len Biddle explains a circuit board to Krisda Natakuateong and Chakree Subprawong.

In association with TPEC, continuing effort is being dedicated toward the procurement of more contract work with the Telephone Organization of Thailand.

The previous year's completion of a major software systems project for the Puerto Rican Telephone Company led to plans to provide consultancy on mobile radio sales and service, telecommunications training and additional software systems. And in Egypt, negotiations opened on a microwave system contract for the Pipeline Petroleum Corporation in Cairo.

Also during 1985, ATI took part in 11 international trade shows and technical seminars in Australia, New Zealand, Indonesia, Singapore, Malaysia and Thailand.

The United States marketing drive is carried out through Alta Telecom Inc., with 12 permanent employees plus 19 locally-hired contractual engineers, technicians, foremen and craft personnel. In 1985, Alta Telecom Inc. set up permanent headquarters at Technology Park, Atlanta, Georgia's high-tech creativity centre.

A major breakthrough was made in the U.S. automotive industry — the sale of a software-controlled Plant Test Centre Administration System plus a Special Services Trouble Reporting System, to one of the "big three" Detroit automobile manufacturers.

Fibre-optic network distribution systems were completed in Detroit and Pittsburgh. And work began on a contract for the installation of a 230 km cable television network in Sacramento. In 1986, ATI will continue to promote software systems and project management expertise throughout the United States.

1985 successes gave ATI increased visibility in international telecommunications markets. The domestic market also signals exciting growth. Both Altel Data and Mobile Communications are represented by ATI in out-of-province Canadian markets.

Alta-Can Telecom Inc.

In November, this venture capital subsidiary announced a new \$3-million investment fund. The fund will be welcomed by inventive Albertans with high-technology ideas that have market potential.

It is *Spurt Investment Fund 1*, a limited partnership with eight other prominent Alberta-based enterprises, plus one based in Toronto, to invest in "seed" or very early-stage opportunities. This is in keeping with the Alta-Can mandate to develop economic diversification and to contribute to the high-tech industrialization of Alberta. By investing in businesses

at the seed stage it will assist them in developing to the point where they can qualify for traditional financing.

Alta-Can's established investments showed satisfactory 1985 performance. Idacom Electronics Ltd. of Edmonton developed a new and advanced protocol testing product with exceptional potential. It was adjudged the most outstanding Canadian product at Electronicom '85 in Toronto.

A new Alberta investment is a 32% equity position in Innovage Microsystems of Calgary. Innovage is developing a series of remarkably compact, versatile and low cost microprocessor test instruments. Despite their small size and light weight, they have built-in diagnostic features normally expected in larger and more expensive instruments.



A new Alta-Can Telecom investment is Innovage Microsystems Inc., Calgary. Innovage President Michael Kaiser (r.) and Test Technician Stan Van Meter are seen performing high-level diagnostics with their revolutionary microsystem test instrument.

Idacom's award winner, the PT Protocol Tester. This Alberta product was adjudged Most Outstanding Canadian Product at The Institute of Electrical and Electronics Engineers' Electronicom '85 in Toronto.



NovAtel Communications Ltd.

In 1985, NovAtel, with a newly appointed President, D.E. Lippert, became North America's fourth largest supplier of mobile phones. This joint-venture subsidiary with NOVA, AN ALBERTA CORPORATION expects to achieve third spot in 1986, comparing all domestic and international manufacturers.

The United States market accounted for about two-thirds of 1985 sales. Important breakthroughs in the automotive market were accomplished by providing custom-labelled products for major automobile manufacturers.

In the United Kingdom, NovAtel signed a transaction valued at \$20 million (Canadian) with the Carphone Group — largest U.K. private supplier of mobile phones. A NovAtel marketing/service facility was opened in Holt, Wiltshire, near Carphone's Bath, Avon headquarters.

Other offshore business brought a \$2.5-million sale to the City of Chongqing, China, for its first public cellular telephone system. Despite heavy competition, the contract was negotiated in just three weeks and established a foundation for more opportunities in Asia.

On the domestic scene, a major Toronto-based company placed an additional \$6.3-million order for cellular telephones.

A major contract was awarded for AGT's coming introduction of the AURORA 800 MHz cellular system in Calgary.

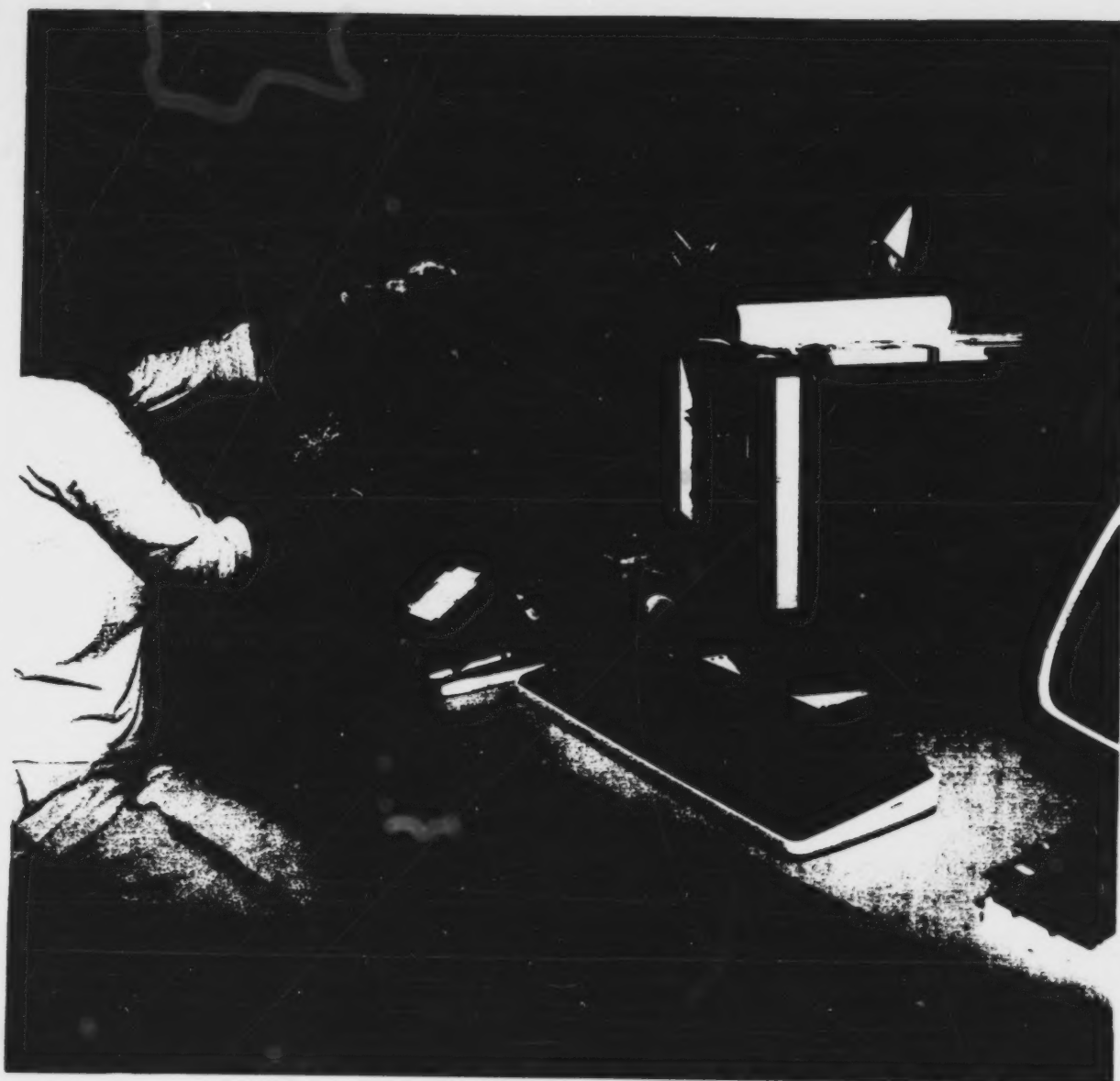
An initial \$700,000 contract came from NorthwesTel Inc. for a uniquely flexible 400-800 MHz system pioneered by NovAtel. And SaskTel signed a half-million dollar contract for mobile telephones on its AutoPhone system.

New product developments included alphanumeric display and a hands-free mobile

phone. In early 1986, NovAtel will market its new 2883-2983 model. Smaller and lighter, it can be unplugged from a vehicle and carried as a transportable or briefcase unit.

For the rural phone service of the future, NovAtel is continuing the development of the AURORA LR (Loop Replacement). As a cost-efficient replacement for wire loop, it points the way to rural individual line service in Canada and in world markets.

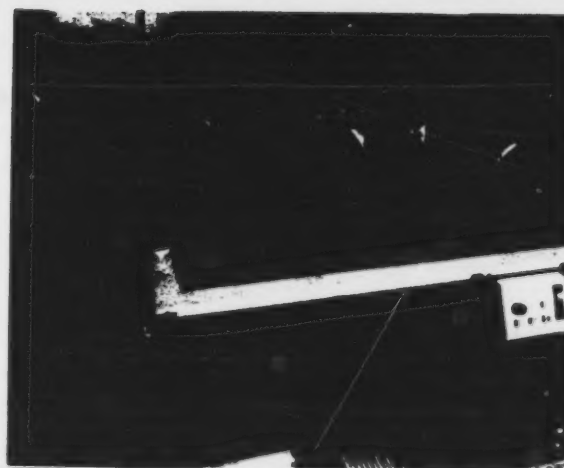
NovAtel today employs over 450 people. The new Lethbridge plant, officially opened by Federal Communications Minister the Honourable Marcel Masse, has more than 150 employees and NovAtel's growth is a foundation for many future job opportunities in Alberta. For 1986, NovAtel plans to hire 100 more people in Lethbridge and 50 more in Calgary.



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At the official opening of NovAtel's Lethbridge plant, Pick-&-Place Machine Operator Dorothy Hanson shows NovAtel Senior Vice-President Dr. Arunas Sleky's and Federal Communications Minister the Honourable Marcel Masse how she helps assemble mobile phones.

In his tour of the new mobile-phone manufacturing facility, Marcel Masse was joined by representatives of the Government of Alberta; Lethbridge City Council; NovAtel and the parent companies, AGT and NOVA, AN ALBERTA CORPORATION.



THE FINANCIAL FOUNDATION. A 1985 REVIEW

Operating Revenues

The Company's substantially improved financial results reflect early strengthening, in 1985, of Alberta's economy. AGT's ability to meet customers' varying needs in an increasingly competitive marketplace, and continued efforts to control expenditures and increase productivity. All of AGT's seven geographic regions experienced stronger long distance message growth than in the previous year. The increase in total long distance messages in 1985 was 10.2%, more than double the 4.2% growth in 1984. This is the largest increase in long distance messages since 1981.

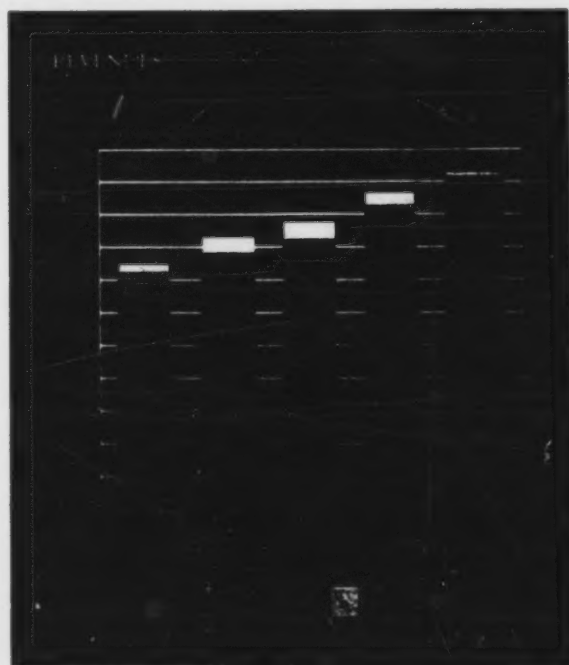
Subscriber lines in service, like long distance messages, showed stronger growth in 1985 in all AGT regions. The increase amounted to 3.5% in 1985 compared to 2.1% in 1984. AGT has also realized strong revenue growth with Alberta business customers, through a concerted marketing effort combined with state-of-the-art product lines and an excellent service record. Mobile communications services, terminal equipment sales, and network services all showed strong growth in 1985.

At the end of August, AGT introduced a 4.85% rate reduction applicable to basic services, including local service charges for both residence and business customers, and charges for long distance calls within Alberta and to other provinces. This rate reduction resulted when collection of the deficiency rider approved by the Public Utilities Board of Alberta as part of the 1984 rate increase was completed. The deficiency rider was granted to allow recovery of a portion of the shortfall in 1983 and 1984 revenues.

In 1985, for the first time in AGT's history, Total Operating Revenues topped the \$1-billion

mark, amounting to \$1.049 billion — an increase of 8.1% over Total Operating Revenues for 1984. It was only six years ago, in 1979, that revenues reached the half billion dollar mark. While recognizing this as a major financial milestone, the Company also recognizes the technological and business challenges it faces if such growth is to continue.

Long distance service revenues continued to show substantial growth in 1985. Such revenues amounted to \$686.8 million, an increase of 11.4%, compared to an increase of 7.8% in 1984. With this strong growth in 1985, long distance service revenues accounted for 65.5% of total revenues, compared to 62.9% in



1984. The degree of dependence on long distance revenue is a concern that must be addressed through the regulatory process to achieve some rebalancing of rates between local and long distance services.

Local service revenues increased by \$14.2 million or 4.5% in 1985, amounting to a total of \$331.8 million for the year. Local service revenues include both the monthly network access charge for basic telecommunications services and the monthly rental or sales revenue for customer terminal equipment. Sales of equipment and maintenance contracts continued to grow in significance in 1985, accounting for over 4% of total Local service revenues.

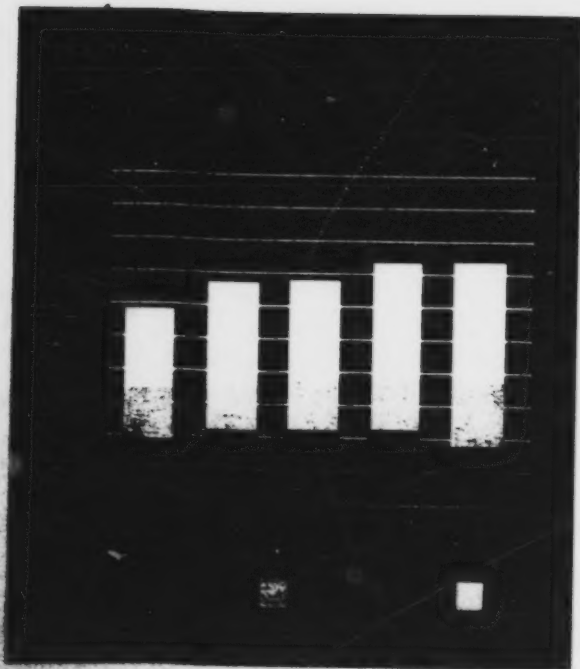
Operating Expenses

The 2.6% increase in Total Operating Expenses in 1985 reflects two significant influences:

The first is the continuing effort to control costs and to achieve productivity improvements. With the expertise and assistance of the Productivity Improvement Department, management attention focussed on such areas as inventory control, energy management, and human resource management. Hiring constraints continued in 1985, and for the fourth year in a row the total number of employees was reduced. This reduction was achieved despite substantial increases in business volumes, and the additional expenses of \$2.4 million incurred as a result of the billing problems associated with the 'edmonton telephones' situation.

The fact that employee reductions of 16.6% were realized since the peak reached in mid-1982 without layoffs, and with minimal impact on customer services, is a tribute to the ingenuity and dedication of all managers and employees throughout the organization.

The second significant influence on operating expenses in 1985 is the decision to change the accounting for the costs of installation of equipment on customer premises, in accordance with the general direction in the telecommunications industry. Beginning January 1, 1985, such costs are reflected in maintenance expense in the period in which they are incurred, rather than being capitalized and depreciated over future periods. In conjunction with this accounting change, the December 31, 1984 balance of undepreciated costs of installation of equipment on customer premises is being amortized over a two-year period beginning January 1, 1985. The amortization is shown as a separate item in determining Net Income Before Extraordinary Items.



Capital Expenditures, Financing, and Interest Charges

Capital expenditures were again reduced, amounting to \$180.7 million in 1985. This figure reflects an additional \$21.8-million reduction for costs now reported as Maintenance expense, due to the previously mentioned accounting change. Cost control measures decreased expenditures for the third year in a row. Despite growth in business volumes during this period, expenditures were considerably below the \$473.5 million incurred in 1982. With continued volume increases, it is inevitable that some increase in expenditure will be necessary in 1986 in order to maintain customer service levels.

In anticipation of lower interest rates, it was decided to continue financing through short-term Notes Payable during 1985. With Funds Provided From Operations increased by 13.7% to \$266.7 million in 1985, and significantly reduced requirements for Additions to telephone property and Reduction of long-term debt, the amount of such short-term Notes Payable was reduced by \$35.6 million in 1985. This brought the total outstanding at December 31, 1985 down to \$134.5 million.

Interest expenses in 1985 were only 0.6% higher than in 1984. While lower interest costs were generated through lower interest rates on short-term financing available throughout most of the year, these were largely offset by the increase in interest costs on the portion of debt issued in United States funds, due to the increase in the exchange difference between Canadian and United States dollars.

Income and Retained Earnings

Net Income Before Extraordinary Items more than doubled in 1985, amounting to \$48.2 million compared to the \$22.1 million realized in 1984. Extraordinary items in 1984 reduced Net Income for the Year to \$11.1 million. No such Extraordinary items impacted 1985. However, the \$48.2 million in net income includes \$24.6 million of revenue shortfalls from previous years recovered through the deficiency rider which was in effect until the end of August.

Net Income for the Year increased Retained Earnings from \$61.1 million at the beginning of the year to \$109.3 million at December 31. This, in turn, increased the proportion of total capital made up by Retained Earnings for the second year in a row. The ratio of debt to total capital decreased from 97.1% to 94.8%.

The substantial improvement in financial results in 1985 was achieved through a combination of additional revenues generated through higher than forecasted business volumes, and expenditures held to lower than budgeted levels. The benefits of these factors should carry forward, and similar or slightly improved financial results are anticipated in 1986. However, concern is evident that should lower oil prices persist, the significant impact on the Alberta economy would negatively affect expected financial results.

MANAGEMENT REPORT

February 26, 1986

AGT

Management's Responsibility for Financial Statements

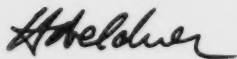
The accompanying consolidated financial statements and information in the Annual Report are the responsibility of management and have been approved by the AGT Commission. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and of necessity include some amounts that are based on estimates and judgments. Financial information presented throughout the Annual Report is consistent with that in the consolidated financial statements.

To discharge its responsibility for the integrity and objectivity of financial reporting, management maintains a system of internal accounting controls comprising written policies, standards and procedures, a formal authorization structure, and an internal audit program. This system is designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded. The Company has also established a Code of Business Conduct and corporate directives which require communication of the Code to employees.

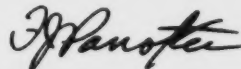
The Commission carries out its responsibility for the financial statements through its Audit Committee, which consists entirely of members of the AGT Commission. This Committee meets periodically with management and the auditors to discuss and review audit and financial matters, and recommends the financial statements to the Commission for approval. The Company's external auditor has full and free access to the Audit Committee.

The Auditor General of Alberta, the Company's external auditor, appointed through The Alberta Government Telephones Act, is engaged to provide an independent audit of the consolidated financial statements. The Auditor's Report is presented below.

On behalf of Management,



H.M. Neldner
President



F.J. Parrotta
Vice-President - Finance
Edmonton, Alberta

AUDITOR'S REPORT

February 26, 1986

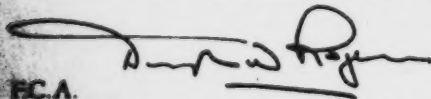


ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

To the Members of
The Alberta Government Telephones Commission

I have examined the consolidated balance sheet of The Alberta Government Telephones Commission as at December 31, 1985 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Commission as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in capitalization policy for costs associated with the installation of equipment on customer premises as explained in note 2(a) to the financial statements, on a basis consistent with that of the preceding year.



P.C.A.
Auditor General
Edmonton, Alberta

CONSOLIDATED BALANCE SHEET

as at December 31, 1985
(thousands of dollars)

Assets

	<u>1985</u>	<u>1984</u>
Telephone Property, at cost:		
Buildings and equipment	\$ 2 932 434	\$ 3 035 415
Less: Accumulated depreciation	<u>1 107 597</u>	<u>1 126 483</u>
	1 824 837	1 908 932
Land	45 916	46 175
Plant under construction	37 389	57 783
Materials and supplies	<u>85 222</u>	<u>68 619</u>
	1 993 364	2 081 509
Unamortized Station Connection Costs (Note 3) .	<u>22 998</u>	<u>—</u>
Intangible Asset (Note 4)	<u>—</u>	<u>672</u>
Investments (Note 5)	<u>8 428</u>	<u>6 903</u>
Current:		
Cash and short-term deposits	6 001	2 904
Accounts receivable	156 161	132 986
Prepaid expenses	13 882	12 881
Net investment in leases and mortgages (Note 6)	<u>12 015</u>	<u>8 321</u>
	188 059	157 092
Net Investment in Leases and Mortgages (Note 6)	<u>40 860</u>	<u>29 159</u>
Deferred Charges (Note 7)	<u>55 406</u>	<u>48 188</u>
	<u>\$ 2 309 115</u>	<u>\$ 2 323 523</u>

The accompanying notes are part of these consolidated financial statements.

Liabilities

	<u>1985</u>	<u>1984</u>
Long-Term Debt (Note 8)	\$ 2 203 983	\$ 2 202 480
Less: Sinking fund assets (Note 9)	<u>366 802</u>	<u>316 001</u>
	<u>1 837 181</u>	<u>1 886 479</u>
Current:		
Bank overdraft	9 541	2 065
Notes payable	134 466	170 053
Accounts payable	58 710	43 174
Wages payable	51 034	56 896
Accrued interest	61 521	57 622
Service billed in advance	29 450	28 907
Current portion of mortgages payable (Note 8) ..	<u>396</u>	<u>364</u>
	<u>345 118</u>	<u>359 081</u>
Deferred Revenue	<u>17 537</u>	<u>16 900</u>
Retained Earnings	<u>109 279</u>	<u>61 063</u>
Commitments and Contingent Liabilities (Note 15)		
	<u>\$ 2 309 115</u>	<u>\$ 2 323 523</u>

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended December 31, 1985
(thousands of dollars)

	<u>1985</u>	<u>1984</u>
Operating Revenues:		
Long distance service	\$ 686 806	\$ 616 456
Local service	331 799	317 637
Other (Note 10)	42 443	48 049
Uncollectible operating revenues	(12 117)	(11 757)
	<u>1 048 931</u>	<u>970 385</u>
Operating Expenses:		
Depreciation	182 918	215 457
Maintenance	196 369	171 097
Traffic	35 786	34 111
Commercial and marketing	78 799	75 124
General and administration	198 990	181 737
Property and business taxes	24 013	22 509
Pension fund (Note 11)	22 076	20 005
	<u>738 951</u>	<u>720 040</u>
Net Operating Revenues	309 980	250 345
Other Income (Note 12)	52 167	61 050
	<u>362 147</u>	<u>311 395</u>
Interest and Other Deductions (Note 13)	290 933	289 281
Amortization of Station Connection Costs (Note 3)	22 998	—
Net Income Before Extraordinary Items	48 216	22 114
Extraordinary Items (Note 14)	—	(10 999)
Net Income for the Year	48 216	11 115
Retained Earnings at Beginning of Year	61 063	49 948
Retained Earnings at End of Year	<u>\$ 109 279</u>	<u>\$ 61 063</u>

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The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

AGT

for the year ended December 31, 1985
(thousands of dollars)

	<u>1985</u>	<u>1984</u>
Funds Were Provided From:		
Operations:		
Net income for the year	\$ 48 216	\$ 11 115
Items not requiring current funds:		
Depreciation and amortization	222 584	229 653
Allowance for funds utilized during construction	(4 125)	(6 219)
	<u>266 675</u>	<u>234 549</u>
Long-term debt issues	—	50 000
Increase (Decrease) in deferred revenue	637	(1 681)
	<u>267 312</u>	<u>282 868</u>
Funds Were Applied To:		
Additions to telephone property, net:		
Capital expenditures	180 688	215 922
Less: Items not requiring current funds	43 497	25 241
	<u>137 191</u>	<u>190 681</u>
Increase in materials and supplies	17 965	1 739
	<u>155 156</u>	<u>192 420</u>
Reduction of long-term debt	13 269	151 546
Increase in sinking fund assets	35 233	38 739
Increase in net investment in leases and mortgages ..	11 701	19 759
Increase in investments	1 525	3 323
Additions to deferred charges	5 498	22 400
	<u>222 382</u>	<u>428 187</u>
Increase (Decrease) in Net Current Assets	<u>\$ 44 930</u>	<u>\$ (145 319)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1985

Note 1 Authority

The Alberta Government Telephones Commission operates under the authority of The Alberta Government Telephones Act, Chapter A-23, Revised Statutes of Alberta 1980.

Note 2 Summary of Significant Accounting Policies

(a) Telephone Property

Telephone property is recorded at original cost and includes materials, direct labour, certain general overhead costs associated with construction activity and an allowance for funds utilized during construction. Materials and supplies are valued substantially at average cost.

The Commission continually reviews the application of this capitalization policy in accordance with accounting standardization policies of the Telecom Canada companies. Resulting from this review costs associated with the installation of equipment on customer premises are being recognized as an expense in the period in which they are incurred. In 1985, these costs amount to \$21 848 000 and are included as Maintenance expenses. The change in capitalization policy, which was applied prospectively effective January 1, 1985, also resulted in a reduction of Depreciation expense for 1985 of \$34 478 000.

Adjustments reducing Buildings and equipment and Accumulated depreciation by \$42 274 000 were processed in 1985. The adjustments resulted from the implementation of ongoing control procedures for the reconciliation of the records of customer premise equipment.

(b) Depreciation

Depreciation is provided on a straight-line basis using rates determined by a continuing program of engineering studies, calculated to allocate to operations the cost of groups of property with equal service lives over the estimated useful lives of the groups.

When depreciable telephone property is retired for reasons of exhausted service capacity, obsolescence, loss or destruction, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation. Gains or losses on disposal of depreciable telephone property are allocated to operations over the remaining estimated useful lives of appropriate property groups. When depreciable telephone property subject to resale in the ordinary course of business (such as customer premise equipment) is sold, the original cost of such property less accumulated depreciation is netted against sale proceeds and the difference is reflected in Local service revenues.

The composite depreciation rate for the year ended December 31, 1985, was 6.23% compared to 7.62% for the previous year. Total depreciation of \$200 711 000 (1984 \$236 633 000) includes \$15 996 000 (1984 \$18 744 000) distributed to other operating expenses and \$1 797 000 (1984 \$2 432 000) distributed to telephone property.

(c) Translation of Foreign Currencies

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date.

Realized exchange gains or losses are reflected in net income for the year.

Unrealized exchange gains or losses are deferred and amortized over the remaining lives of the related assets and liabilities.

(d) Deferred Revenue

Deferred revenue relates to the capital cost of equipment rented under operating leases and is recognized as income on a straight-line basis over the estimated useful life of the equipment. Deferred revenue to be recognized as income within one year has been reclassified to Service billed in advance.

(e) Amortization

Deferred charges, discounts or premiums on long-term monetary assets and liabilities are amortized on a straight-line basis over the remaining lives of the related assets and liabilities.

When interest coupons and residuals are held as separate investments in Sinking funds, discounts are amortized over the period to maturity so as to produce a constant rate of return on the investments (Note 12).

Intangible assets are amortized on a straight-line basis over a specified period.

(f) **Investment in Leases**

Unearned finance income related to sales type leases is taken into income over the lease term to produce a constant rate of return on the investment in the lease.

(g) **Consolidation**

These consolidated financial statements include the accounts of wholly-owned subsidiaries, Alta Telecom International Ltd., Alta Telecom Inc., Alta-Can Telecom Inc., Alta-Telecom Licensing Corporation and 288922 Alberta Ltd. (together with its wholly-owned subsidiary 288951 Alberta Ltd.). Also included is 288951 Alberta Ltd.'s pro rata portion of the assets, liabilities, income and expenses of its unincorporated telecommunications joint venture undertaking. All significant transactions between these companies included in the consolidation have been eliminated, except for purchase of telecommunications equipment and supplies by Alberta Government Telephones from the Joint Venture which are reflected in the Consolidated balance sheet at cost to the parent and are included in the Consolidated income statement. To the extent that any income related to these revenues has not been offset by depreciation or other operating expenses, it remains in Consolidated income and retained earnings. This practice is generally followed in regulated industries.

Note 3 Amortization of Station Connection Costs

In conjunction with the change in capitalization policy for the costs associated with the installation of customer premise equipment (Note 2a), the balance of undepreciated capitalized costs as at December 31, 1984 is being amortized over a two-year period beginning January 1, 1985. In 1985, \$22 998 000 has been included as Amortization of Station Connection Costs in determining Net Income Before Extraordinary Items. The unamortized balance as at December 31, 1985 of \$22 998 000 appears on the Balance Sheet as Unamortized Station Connection Costs.

Note 4 Intangible Asset

The intangible asset represents the excess of the cost of acquiring a directory publishing business in January, 1983 over the value of the identifiable net assets at the date of acquisition. This amount has been amortized on a straight-line basis over a period of three years commencing from the date of acquisition.

Note 5 Investments

Investments consist of the following:

	<u>1985</u>	<u>1984</u>
Telesat Canada		
279 900 common shares without par value, at cost	\$ 2 799 000	\$ 2 799 000
Cybernex Ltd. (held by Alta-Can Telecom Inc.)		
2 000 preferred shares without par value and		
150 000 common shares without par value, at cost	2 000 015	2 000 015
Telematic Products, Inc. (held by Alta-Can Telecom Inc.)		
285 714 preferred shares, par value \$.10 U.S., at cost	1 300 399	1 300 399
Idacom Electronics Ltd. (held by Alta-Can Telecom Inc.)		
30 395 common shares without par value, at cost	550 000	550 000
NovAtel Communications Ltd. (held by 288951 Alberta Ltd.)		
44.5 common shares without par value, at equity and 500		
non-voting preferred shares, par value \$100, at cost	231 236	231 236
Woods-Alta Group (held by Alta Telecom Inc.)		
Unincorporated Joint Venture, at equity	870 637	—
Other investments, at cost	676 335	22 085
	<u>\$ 8 427 622</u>	<u>\$ 6 902 735</u>

Note 6 Net Investment in Leases and Mortgages

The net investment in leases and mortgages results from the sale of assets to customers under a lease purchase plan and from the sale of rental homes to employees. Principal due within one year has been reclassified under current assets.

Net investment in leases and mortgages consists of the following:

	<u>1985</u>	<u>1984</u>
	<i>(thousands of dollars)</i>	
Total minimum lease and mortgage payments receivable	\$ 68 925	\$ 49 277
Unearned finance income	(16 050)	(11 797)
	<u>52 875</u>	<u>37 480</u>
Less: Current portion	12 015	8 321
	<u>\$ 40 860</u>	<u>\$ 29 159</u>

Note 7 Deferred Charges

Unamortized deferred charges consist of the following:

	<u>1985</u>	<u>1984</u>
	<i>(thousands of dollars)</i>	
Unrealized exchange loss, net	\$ 37 045	\$ 30 105
Debt discount	9 095	11 200
Other	9 266	6 883
	<u>\$ 55 406</u>	<u>\$ 48 188</u>
Amortization charged to net income for the year	<u>\$ 9 657</u>	<u>\$ 9 356</u>

Note 8 Long-Term Debt

Long-term debt is summarized as follows:

	<u>1985</u>	<u>1984</u>
	<i>(thousands of dollars)</i>	
Debentures payable in United States funds, maturing 1986 to 1996 bearing interest at 4.75% to 9.50%	\$ 204 910	\$ 207 781
Exchange premium, net, at dates of issue	13 421	13 433
Unrealized exchange loss	68 195	53 410
	<u>286 526</u>	<u>274 624</u>
Debentures payable in Canadian funds, maturing 1986 to 2003, bearing interest at 6.00% to 17.75%	<u>1 905 396</u>	<u>1 915 396</u>
Mortgages payable in Canadian funds, repayable in monthly instal- ments, maturing 1995 and 1999, bearing interest at 8.25% and 11.50%	12 457	12 824
Less: Principal included in current liabilities	396	364
	<u>12 061</u>	<u>12 460</u>
	<u>\$ 2 203 983</u>	<u>\$ 2 202 480</u>

Note 8 (continued)

- (a) Debentures are unconditionally guaranteed as to principal and interest by the Government of the Province of Alberta.
- (b) In accordance with debenture deeds, certain issues require annual sinking fund contributions of 1.00% to 2.00% of the principal amounts outstanding. Contributions are required during periods varying from 15 to 25 years before maturity.
- (c) Certain debentures have early redemption provisions at the Commission's option during periods prior to maturity varying from 2 to 4 years for Canadian dollar issues and 10 to 13 years for United States dollar issues.
- (d) Amounts of debentures repayable within one year are classified as long term debt inasmuch as it is anticipated that payments will be made from the proceeds of refinancing rather than from current assets.
- (e) Anticipated requirements to meet long term debt repayments and sinking fund provisions during the next five years (excluding exchange on debt repayments to be made in United States funds), are as follows:

Year	Debenture Redemptions	Mortgages	Sinking Fund Provisions	Total
		(thousands of dollars)		
1986	\$ 126 241	\$ 396	\$ 24 003	\$ 150 640
1987	376 302	431	24 003	400 736
1988	1 367	469	24 003	25 839
1989	100 000	510	23 498	124 008
1990	—	555	22 895	23 450
	<u>\$ 603 910</u>	<u>\$ 2 361</u>	<u>\$ 118 402</u>	<u>\$ 724 673</u>

Note 9 Sinking Fund Assets

Sinking fund assets relate to the Commission's debenture debt and consist of the following:

	1985	1984
	(thousands of dollars)	
Investments:		
Debentures, at amortized cost:		
Government of Canada, direct and guaranteed	\$ 247 646	\$ 193 109
Provincial, direct and guaranteed	26 545	36 080
Investment in the Commission's own debentures, at amortized cost	65 932	63 591
Unrealized exchange gain	11 625	8 730
(Approximate market value: 1985 \$429 039; 1984 \$299 498)	<u>351 748</u>	<u>301 510</u>
Cash	20	99
Short-term deposits	11 939	8 323
Accrued interest	3 095	6 069
	<u>\$ 366 802</u>	<u>\$ 316 001</u>

Note 10 Other Operating Revenues

Other operating revenues consist of the following:

	<u>1985</u>	<u>1984</u>
	<i>(thousands of dollars)</i>	
Directories	\$ 28 653	\$ 25 948
Rentals	12 185	12 792
Miscellaneous	1 605	9 309
	<u>\$ 42 443</u>	<u>\$ 48 049</u>

Note 11 Pension Fund

The Commission makes regular contributions to The Alberta Government Telephones Employees' Pension and Death Benefit Fund which provides service pensions calculated as a function of earnings and years of service. An actuarial review as at December 31, 1984 indicated that the assets of the Fund together with the contributions expected to be received from the members of the Fund were sufficient to provide the benefits under the Fund as they fall due.

Note 12 Other Income

Other income consists of the following:

	<u>1985</u>	<u>1984</u>
	<i>(thousands of dollars)</i>	
Sinking fund income	\$ 32 445	\$ 40 745
Allowance for funds utilized during construction	4 125	6 219
Dividends from investment in Telesat Canada shares	140	140
Operating lease income	3 404	4 066
Finance income	5 412	3 488
Miscellaneous	6 641	6 392
	<u>\$ 52 167</u>	<u>\$ 61 050</u>

Sinking fund income for 1985 includes a reduction of \$7 523 000 to adjust the income recognized in 1984, when the first significant investment was made in interest coupons and residuals, as separate investments (Note 2e).

Note 13 Interest and Other Deductions

Interest and other deductions consist of the following:

	<u>1985</u>	<u>1984</u>
	<i>(thousands of dollars)</i>	
Interest and exchange on long-term debt	3 555	3 555
Interest on short-term debt	3 555	3 555
Amortization of unrealized gains and losses	3 555	3 555
Amortization of debentures	3 555	3 555
Other deductions	3 555	3 555

Note 14 Extraordinary Items

Extraordinary items in 1984 consist of the following:

Finalization of sale quantities and prices for an exchange of assets with 'edmonton telephones' resulted in a gain of \$1 264 000.

The Commission's share of a project cancellation and an inventory write-down in its joint venture undertaking amounted to \$12 263 000.

Note 15 Commitments and Contingent Liabilities

The Commission is committed to aggregate rental payments of \$20 090 000 under leases having an initial term of more than one year. Minimum annual rental payments during the next five years are as follows:

Year	Rental payments (thousands of dollars)
1986	\$ 7 112
1987	5 189
1988	2 540
1989	1 369
1990	702

The Commission and its subsidiaries are contingently liable for \$2 148 000 in the form of letters of credit and guarantees.

On April 24, 1985 representatives of the City of Edmonton and the Government of Alberta signed a Memorandum of Understanding which established an Arbitration Committee to hold hearings to "develop or select a practical toll-sharing formula for the sharing of toll revenues generated in the City of Edmonton" The probable outcome of these hearings is not determinable at this time.

Note 16 Related Party Transactions

During 1985, the Commission purchased equipment, materials and related supplies from its joint venture undertaking in the amount of \$10 875 000 (1984 \$23 096 000), which represented approximately 22% (1984 97%) of the sales of the joint venture. There were no material transactions with other related companies.

Note 17 Comparative Figures

The 1984 figures have been reclassified where necessary to conform to 1985 presentation.

Note 18 Approval of Financial Statements

These financial statements were reviewed by the Audit Committee of the Alberta Government Telephones Commission and recommended for approval by the Commission.

HISTORICAL SUMMARY

	1985	1984	1983
FINANCIAL POSITION			
<i>(in thousands)</i>			
TOTAL PLANT INVESTMENT	\$ 3 015 739	\$ 3 139 373	\$ 3 054 239
ACCUMULATED DEPRECIATION	1 107 597	1 126 483	1 004 047
LONG-TERM DEBT	2 203 983	2 202 480	2 288 241
RETAINED EARNINGS	109 279	61 063	49 948
INCOME			
<i>(in thousands)</i>			
OPERATING REVENUES	\$ 1 048 931	\$ 970 385	\$ 892 750
OPERATING EXPENSES	738 951	720 040	695 642
OTHER INCOME	52 167	61 050	51 751
INTEREST AND OTHER DEDUCTIONS	290 933	289 281	279 818
EXTRAORDINARY/OTHER ITEMS	(22 998)	(10 999)	8 045
NET INCOME (LOSS)	48 216	11 115	(22 914)
CAPITAL EXPENDITURES			
<i>(in thousands)</i>			
	\$ 180 688	\$ 215 922	\$ 222 809
TOTAL PAYROLL			
<i>(in thousands)</i>			
	\$ 372 435	\$ 357 032	\$ 359 675
CORPORATE STATISTICS			
TOTAL EMPLOYEES	11 477	11 799	11 926
SUBSCRIBER LINES IN SERVICE	771 714	745 617	730 297
LONG DISTANCE MESSAGES <i>(in thousands)</i>	236 207	214 357	205 808
CENTRAL OFFICE EXCHANGES	434	430	420
EMBEDDED COST OF LONG-TERM DEBT (OUTSTANDING PROCEEDS)	13.10%	12.98%	12.58%

1982	1981	1980	1979	1978	1977	1976
\$ 2 976 148	\$ 2 657 077	\$ 2 244 861	\$ 1 932 576	\$ 1 678 979	\$ 1 476 011	\$ 1 289 070
884 195	786 917	638 309	516 193	420 808	344 202	290 279
2 248 756	1 916 270	1 644 034	1 437 719	1 303 090	1 167 911	1 036 982
72 862	129 338	128 282	103 534	79 152	63 281	59 420
\$ 825 346	\$ 734 462	\$ 636 828	\$ 529 018	\$ 443 471	\$ 367 811	\$ 307 801
690 577	596 546	498 153	407 616	338 838	288 464	245 002
51 115	41 303	25 608	19 087	15 422	14 734	13 384
242 360	178 163	139 535	116 107	104 184	90 220	74 749
—	—	—	—	—	—	320
(56 476)	1 056	24 748	24 382	15 871	3 861	1 754
\$ 473 516	\$ 480 014	\$ 380 957	\$ 314 313	\$ 261 070	\$ 246 186	\$ 243 898
\$ 351 061	\$ 307 995	\$ 258 790	\$ 214 825	\$ 189 045	\$ 169 841	\$ 149 661
12 814	13 429	12 326	11 229	10 696	10 357	9 958
723 667	705 352	658 292	606 648	560 920	521 316	486 896
205 420	198 930	177 788	148 957	126 654	109 456	95 522
424	408	402	398	387	379	375
12.35%	11.28%	9.87%	8.93%	8.68%	8.35%	8.10%

OFFICERS, MANAGEMENT AND COMMITTEES OF THE COMMISSION. DECEMBER 31, 1985.

Chairman	H.B. Hobbs
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General Counsel and Corporate Secretary	S.N. Douglas
Senior Vice President Network Engineering & Operations	D.F. Baillie
General Network Planning & Design Manager	I.W. Mills
General Network Implementation & Staff Manager	G.S. Raitt
General Operations Manager North	H. Mandryk
General Operations Manager South	R.F. Sutcliffe
General Operations Services Manager	H.W. Schroder
Senior Vice President Marketing & Sales	Vacant
General Corporate Development Manager	P.G. McLean
General Manager Altel Data	H.J. Stech
General Manager Business Communications	D. Lowry
General Manager Mobile Communications	E.A. Tucker
Directory Manager	S.T. Noble
Vice-President Corporate Development & Regulatory Affairs	J.D. McDonald
Assistant Vice-President Inter-carrier & Regulatory Affairs	J.E. Fyles
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General Customer Relations Manager	F.C. Davies
Directional Planning & Organization Task Force	E. Roesler
Vice President Finance	F.J. Parrotta
Comptroller & Treasurer	G.E. Shirley
Director Pension Fund Investments	R.G. Bertram
General Pension Administration Manager	H.J. McNeely
Manager Internal Audits	E.G. Cherneski
General Security & Claims Manager	A.W. Reimer
Vice-President Human Resources & Corporate Services	J.W. Thiessen
General Personnel Manager	W.R. Stuart
General Systems & Methods Manager	H.C. Loos
General Manager Productivity Improvement	M.J. Macartney

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* ex-officio
H.B. Hobbs
H.M. Neldner

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